GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1089
ANSWERED ON:24.10.2008
FRAUDS IN BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether the nationalized banks have lost huge amounts owing to frauds;

(b) if so, the details thereof during each of the last three years and the current year,bank-wise;

(c) whether the Government has taken any steps to detect the increasing incidents of frauds and to recover the losses incurred to the banks;

(d) if so,the details thereof;and

(e) if not,the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PAWAN KUMAR BANSAL)

(a) & (b): Reserve Bank of India has reported that the amount lost in fraud cases in respect of public sector banks during the years 2006, 2007 and 2008 (upto June) were RS.614.43 crore, Rs 617.91 crore and Rs 330.55 crore respectively as against their total business of Rs 30,31,047 crore,Rs 37,11,303 crore and Rs 31,39,406 crore as at the end of the year 2006,2007 and upto June,2008 respectively.The amounts lost in fraud cases constitute hardly 0.02%,0.02% and 0.01 % respectively of the total business of the banks during the above said period.Thus it is evident that amount lost by banks in fraud cases is not very large.

(c),(d)&(e): Reserve Bank of India as a part of its supervisory process has been sensitizing banks from time to time about common fraud prone areas,modus operandi of frauds and the measures to be taken by them to prevent/reduce the incidence of frauds in banks.

On receipt of fraud report from banks,RBI advises the concerned banks to report the case to CBI/Police/SFIO, to examine staff accountability and complete proceedings against the erring staff expeditiously,take steps to recover the amount involved in the fraud,claim insurance wherever applicable and streamline the system and procedures so that frauds do not recur.Some of the important measures taken by RBI in this regard are furnished below:

Introducing a system of concurrent audit.

Reviewing working of internal inspection and audit machinery in banks by the Audit Committee of the Board of Directors.

Constituting a Special Committee of the Board exclusively for monitoring frauds of Rs.1 crore and above.

Examining staff accountability and instituting disciplinary action expeditiously against the staff involved in frauds.

On the basis of recommendations made by the Mitra Committee on legal aspects of bank frauds,banks were advised to take various preventive steps viz. Development of Best Practice Code (BPC),System of internalization of BPC,strengthening internal checks and internal controls and introducing Legal Compliance Audit.

As the frauds in the area of housing loans were on the increase,RBI had issued several circulars including steps to be taken by banks to prevent such frauds,such as conduct of due diligence of borrowers/builders,scrutiny of documents by legal experts,verification of identity of the borrowers,multi layered decision making process,pre-sanction visit to a project site and strict post disbursement supervision etc.